



Memorandum # 1/2004

Commonwealth of Massachusetts | Public Employee Retirement Administration Commission
Five Middlesex Avenue, Third Floor, Somerville, MA 02145
Ph 617 666 4446 | Fax 617 628 4002 | TTY 617 591 8917 | www.mass.gov/perac
Robert E. Tierney, *Chairman* | A. Joseph DeNucci, *Vice Chairman*
C. Christopher Alberti | Kenneth J. Donnelly | Eric A. Kriss | James M. Machado | Donald R. Marquis
Joseph E. Connarton, *Executive Director*

MEMORANDUM

TO: All Retirement Boards

FROM: Joseph E. Connarton, Executive Director

RE: Local Government Early Retirement Incentive Program

DATE: January 5, 2004

Section 116 of Chapter 46 of the Acts of 2003 established a local option to allow cities, towns, counties, authorities and districts to offer an Early Retirement Incentive program (ERI) for eligible employees. The purpose of this memorandum is to request your assistance in determining the cost and the funding schedule associated with the program for any governmental unit in your system that adopted the legislation.

Data to be Provided to PERAC after Retirement

The law requires PERAC to complete a report for each retirement system accepting the ERI before December 31, 2004. It is our intention to begin our analysis for a system as soon as the necessary data is made available to us.

In order to complete this analysis, we will require data for each member electing to retire under the ERI. The following information should be provided:

- Name
- Job group
- Social Security Number
- Date of birth
- Date of retirement
- Total Credited Service at retirement (before ERI enhancement)
- Average Annual Compensation at retirement
- Annuity Savings Fund Balance at retirement

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TO: All Retirement Boards
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RE: Local Government Early Retirement Incentive Program
DATE:

- Years added to age under ERI
- Years added to service under ERI
- Annual Allowance at retirement (with ERI enhancement)
- Optional Form of benefit selected (A, B or C)
- Beneficiary Date of Birth (if applicable)

We are requesting that the files be provided via diskette in an Excel spreadsheet, although we are available to discuss other formats. We request that this information be provided as soon as it is available.

Alternatively, boards could seek the assistance of a private actuary to determine the cost of the ERI. Our interpretation of the legislation is that we could review costs calculated by other actuaries and reference those costs in our report. In such cases, our report will be a one-page letter that signs off on the private actuary's work. *Please notify us if a private actuary will be determining the cost of the ERI for your system.*

Funding Schedules

The law states that a system accepting the ERI provisions must revise its funding schedule to reflect the additional liabilities. We recommend amortizing the increase in liability over 15 years on a level dollar basis. This is the same methodology as required in the 1992 ERI and ensures that the bulk of the liability is paid during the retirees' lifetimes. Another alternative is to amortize the additional liability in the same manner as the current funding schedule. Ultimately, the methodology used will be determined by the Board. In most cases, we expect the cost of the ERI will first be reflected in FY06. *The Board should notify PERAC of the amortization schedule chosen and/or provide an updated funding schedule for PERAC approval. In addition, the Board should notify PERAC of the fiscal year the amortization will become effective.*

We trust the foregoing is of assistance. If you have further questions or concerns, please contact this office.